

AR40



**GLENCAIR RESOURCES INC.**

ANNUAL REPORT  
For the Year Ended  
March 31, 1981



## THE COVER:

*Glencair's Jeffreys #2, a successful dual zone gas well located in the Glen Cove area of Coleman County has been completed in the Gardner Sand formation of the Pennsylvanian Strawn series. The well tested to a calculated open flow rate of 1.6 million cubic feet of gas per day.*

*During the drilling of the well, the Morris Sand of the Canyon series was encountered between 3,303 feet and drillstem tested for a flow rate of 2.6 million cubic feet of clean, dry gas per day.*

*Cover photo shows the Jeffreys #2 well flaring gas.*

*Photo: John R. Reddin,  
Photographer (Abilene, Texas).*

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## CORPORATE PROFILE

Glencair Resources Inc. is an independent Canadian Company engaged in exploration and development of oil and gas interests in the United States.

Incorporated as Glencair Mining Company Limited in 1946, and relatively inactive in recent years following the lapse of its mineral leases in Ontario, Glencair was reactivated in May of 1980 following a change of controlling interest in the share capital of the Company. Since its reactivation, the Company's interests have been concentrated on the exploration and development of oil and gas properties in the United States. To reflect the Company's broader scope of activity, by Articles of Amendment effective February 19, 1981, the corporate name was changed to Glencair Resources Inc.

Glencair maintains its Head Office in Toronto, Canada. The Company's operations in the United States are conducted through its wholly-owned subsidiary Glencair Resources (USA) Inc., a Delaware Corporation established May 28, 1980.

As at March 31, 1981, the authorized share capital comprises 7,500,000 common shares. At year-end, there were 3,460,934 common shares outstanding. The Company's shares trade over-the-counter in Toronto.





## REPORT TO THE SHAREHOLDERS

PETER WILSON, TORONTO



*Sydney J. Steiner, President*

1981 was a year of substantial growth and development for Glencair Resources Inc.

Company efforts, directed toward the development of a broader asset base and improved cash flow, concentrated on the acquisition, exploration and development of oil and natural gas properties in the United States. In particular, three major acquisitions highlighted the Company's activities during this fiscal year:

- the acquisition of oil and gas leases consisting of approximately 5,300 gross acres (2,174 net) in the Fort Worth Basin in west-central Texas of which a 50% working interest was retained by Glencair after farmout of a 16 $\frac{2}{3}$ % working interest to each of Pennant Resources Limited, Macfie Resources Inc. and Kam-Kotia Mines Limited, Joint Venture Partners.
- the negotiation of a farm-in agreement to participate with Jefferson-Williams Energy Corporation of Dallas, Texas in the exploration and development of its Three Sands Prospect consisting of approximately 2,700

gross acres (2,200 net) in Kay County, Oklahoma pursuant to which Glencair acquires a 50% working interest.

- the negotiation of a Joint Venture agreement with Wessely Energy Corporation of Dallas, Texas pursuant to which Glencair has the right to acquire 12.5% working interest in each of 11 prospects in Texas and Oklahoma.

This latter acquisition is significant in that it provides Glencair an opportunity for relatively modest cost to participate in deeper, more expensive exploration drilling with good prospects for higher potential returns on investment.

These prospects, which are detailed in this Report, provide Glencair with a broad base of oil and gas exploration and development acreage considered prospective for significant reserves and establish a firm base for the Company's future expansion in the United States.

Exploration drilling during the year commenced in the Fort Worth Basin Prospect and Three Sands Prospect in which the Company and its Joint Venture Partners



participated in the drilling of 19 wells. Of this total, six wells were completed as gas wells; four were completed as oil wells; three were completed as oil/gas wells; and six proved non-commercial and were abandoned.

## **FINANCIAL**

The Company raised in excess of \$1,821,000 through two private placements and rights offering during the fiscal year. In particular:

- a rights offering on June 25, 1980, whereby each common shareholder was offered the right to purchase one common share for every three held at 50 cents per share, resulted in the exercise of 493,934 rights for proceeds of \$246,967.
- a private placement completed on September 22, 1980 involving the issue of six units comprising 90,000 common shares and 45,000 common share purchase warrants exercisable at \$1.35 per share within twelve months of the date of issue and \$1.75 per share within the next ensuing twelve month period, at a unit price of \$103,500 netted the Company \$621,000.
- a second private placement on December 18, 1980 involving the issue of twelve units each consisting of 20,000 common shares and 10,000 common share purchase warrants exercisable at \$7.50 per share on or before December 18, 1981, at a unit price of \$100,000 resulted in proceeds of \$1,200,000 to the Company's treasury.

Capital expenditures, as of March 31, 1981, totalled \$2,083,459 of which \$1,305,873 was expended on exploration; the balance of \$777,586 was spent on land lease acquisitions.

Subsequent to the March 31, 1981 year-end a third private placement of securities resulted in an additional \$1,300,000 to the Company's treasury.

## **CORPORATE**

Concurrent with the change of control of the Company, Messrs. H. Vance White, President; Sydney J. Steiner, Vice-President; Stephen J. Headford, Secretary-Treasurer; Martin L. O'Brien, Director; and Frank E. McLain, Director were elected to the Board of Directors on May 26, 1980.

Subsequent to the Company's change of name to Glencair Resources Inc. and upon the relocation of its head office to its present address, effective March 2, 1981, the Company's senior management group reorganized. Mr. Sydney J. Steiner was appointed President, replacing Mr. H. Vance White who remained a Director. Mr. John W. Clutterbuck was appointed Secretary-Treasurer, replacing Mr. Stephen J. Headford. On March 19, 1981, the Board of Directors accepted the resignation of Mr. Headford as a Director. Mr. Samuel Louis Helfenbaum was appointed to the Board of Directors following Mr. Headford's resignation.

Subsequent to the Company's year-end, Ms. Mary Shaben was appointed a Director to fill the vacancy created by Mr. Helfenbaum's resignation tendered on August 5, 1981 due to personal commitments.

During the year Mr. David Lewis Florence of Dallas, Texas served the Company as consultant to the Board of Directors.

We wish to take this opportunity to thank each of the outgoing Officers and Directors for their important contributions to the Company during this year of reorganization and growth.

## **OUTLOOK**

During its first year in the oil and gas sector of the natural resource industry, Glencair has achieved its primary corporate objectives:

- the acquisition of geologically sound prospects for oil and gas

exploration and development;

- the establishment of a firm asset base;
- the development of an in-depth management team;
- the strengthening of associations with experienced Joint Venture Partners and Operators in Texas.

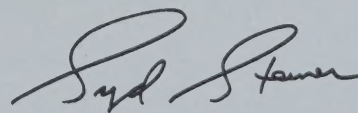
By March 31, 1981 year-end Glencair was in an excellent position to build upon these objectives and to expand and diversify its operations in the United States.

In 1981/82 fiscal year, the Company's efforts will be directed toward continuing exploration and development of its prospects, establishing significant reserves of oil and gas and increasing cash flow from sale of production from development wells to be completed as step-outs from the initial exploratory test wells successfully completed during our first year.

## **APPRECIATION**

We gratefully acknowledge the continued support and confidence of our shareholders and extend our sincere appreciation to our Joint Venture Partners, associates and employees for their valued contributions to the Company.

On Behalf of the Board,



Sydney J. Steiner  
President

August 14, 1981



## REVIEW OF OPERATIONS



### GLENCAIR RESOURCES Areas of Activity

- A** Three Sands Prospect
- B** Wessely Prospects
  - B1** Gulf McClain Prospect
  - B2** Atoy Creek Prospect
  - B3** Canton Prospect
- C** Fort Worth Basin Prospect

### FORT WORTH BASIN PROSPECT, TEXAS

In May 1980, Glencair acquired oil and gas leases consisting of approximately 5,300 gross acres (2,174 net) in Runnels, Coleman, Brown and Callahan Counties in west-central Texas collectively known as Glencair's Fort Worth Basin Prospect. Pursuant to farm-out agreements, Pennant Resources Limited, Macfie Resources Inc. and Kam-Kotia Mines Limited each purchased a 16 $\frac{2}{3}$ % working interest from Glencair which retained a 50% working interest in this prospect.

During the year 13 exploratory test wells were completed, three of which produced both oil and gas, four produced gas alone, one produced oil alone and five of which were abandoned. A detailed summary of these exploratory wells is as follows:

#### **Bragg Lease Coleman County, Texas**

In Coleman County, Texas, the Company controls a 50% working interest, subject to a 21.875% overriding royalty, in 160 gross acres (67.5 net). To date, two wells—the Bragg K-21 (#1) and Bragg I-22 (#2)—have been drilled

on this acreage.

The Bragg #1 well, drilled in October 1980, was completed as a Jennings gas well; the Bragg #2, drilled in February 1981, tested oil from ten feet of Gardner Sand at 3,556 feet.

#### **Hennig N.W. Lease Coleman County, Texas**

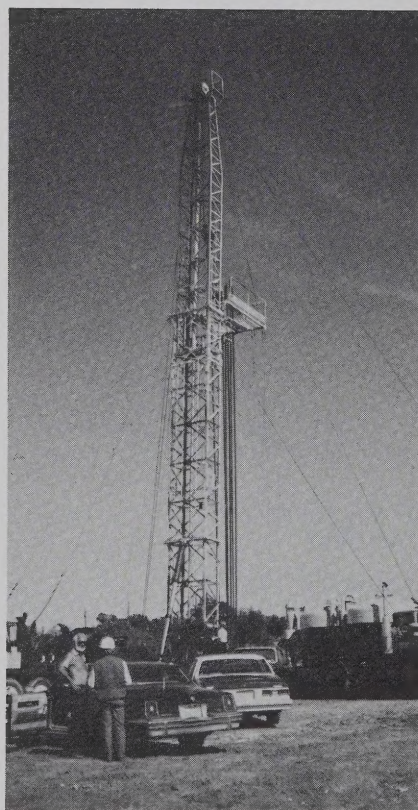
Glencair controls a 50% working interest, subject to a 25% overriding royalty, in this lease and has tested three locations on this acreage.

The Hennig L-18 (1A) well, an abandoned Jennings Sand test, was re-entered by the Company in November 1980. Although the well was successfully perforated in the Palo Pinto "B" zone, it developed water shortly after stimulation.

In December, Glencair drilled a second well, the Hennig L-20 (2A). Initial tests indicated oil in the Gardner Sand, however, this zone was subsequently abandoned and the well was successfully completed in the Jennings formation.

The Company's third well, the Hennig J-20 (3A) was drilled in January 1981 and successfully tested the Gardner Sand at 3,650 feet. This well is currently on production.

JOHN R. REDDIN



*Cement squeeze underway on  
Hennig #2A.*





Preparing to flare gas on Jeffreys #2. (See cover description for detail)

### Jeffreys Lease Coleman County, Texas

On the Company's Jeffreys lease, Glencair holds a 50% working interest, subject to a 12.5% lessors royalty and a 6.25% override controlled by Mid-Continent Petroleum Co. in 156.2 gross acres (68.34 net). Two wells have been drilled on this acreage to date.

The first test, the Jeffreys G-21 (#1), an abandoned well, was re-entered by Glencair in December 1980 to test the Palo Pinto limestone at 3,150 feet. Although this well showed good Palo Pinto development on petrophysical logs and swabbed oil after perforation,

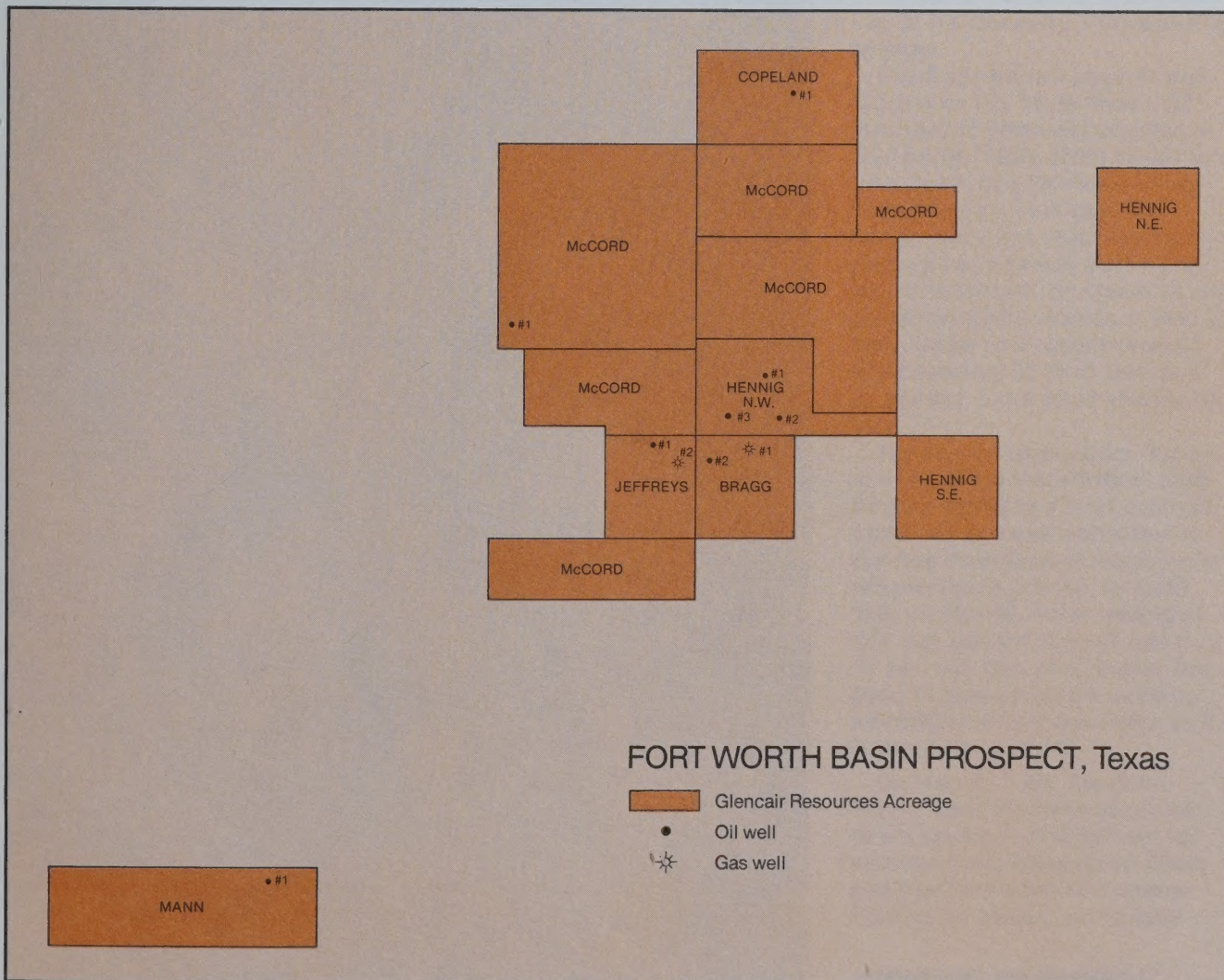
the well has been shut-in due to production difficulties.

A second well, the Jeffreys H-22 (#2), drilled in February 1981 to test the Gardner Sand at 3,608 feet, is currently on production.

### Mann Lease Coleman County, Texas

One well drilled on the Company's Mann lease, in October 1980, tested oil in the Upper Fry Sand at 3,336 feet and has been placed on production.

Glencair has a 50% working interest, subject to a 21.49% overriding royalty, in this lease.







## REVIEW OF OPERATIONS

### McCord "A" Lease Coleman County, Texas

The Company controls a 50% working interest, subject to an 18.75% lessors royalty and a 6.25% override controlled by Mid-Continent Petroleum Co. in this lease.

One well, the McCord B-15 (10), a re-entry which tested gas in the Lower Fry Sand at 3,560 feet, has been completed and is currently on production.

Increasing difficulty in maintaining initial flow rates of production from these exploratory wells has prompted the Company to retain Caddo Corporation, an experienced local operator, to manage these wells and to monitor production on a daily basis. MTA Engineering Ltd., an independent Calgary-based consulting firm has been retained to evaluate the prospect and to provide an estimation of proven and probable reserves. The consultant's final report is expected September 1981.

JOHN R. REDDIN



*Hennig #3A Tank Battery.*



### THREE SANDS PROSPECT, OKLAHOMA

In December 1980, Glencair negotiated a farm-in agreement with Jefferson-Williams Energy Corporation to acquire a 50% working interest in approximately 2,720 gross acres (2,200 net) of oil and gas leases located in Kay County, Oklahoma. Two producing Mississippian wells, drilled in 1980 and requiring further treatment, were also included in the Company's purchase.

This acquisition, a Joint Venture with Jefferson-Williams Energy Corporation, a Dallas-based oil and gas company as operator, proposed the drilling of an initial 15 test wells to evaluate the Layton Sand, Mississippian Lime, Viola Lime and Simpson formations which have proven significant in and around the Company's leases.

Acreage acquired, which contains ten separate exploratory and development opportunities ranging in size from 40 to 480 acres each is located in and adjacent to the

Three Sands Field, discovered in 1921, which has produced in excess of 40 million barrels of oil and an indeterminate amount of casinghead gas from multiple pays including the Hoover, Layton, Red Fork, Mississippian, Viola and Simpson (Wilcox) formations.

To date, Glencair has participated in the drilling of six wells, five of which have been completed and were producing, at mid-July 1981, approximately 225 barrels of oil and 80,000 cubic feet of gas from target geological zones.

Of the wells drilled, several discovered new zones of interest, expected to result in additional production, and are indicative of potential for further step-out drilling on the Company's surrounding acreage.

The State School Land #1 well, located on the Three Sands "B" lease (a 240 acre tract situated in Section 36, T25N, R2W) drilled to a total depth of 4,693 feet on February 24, 1981. This well was completed in the Red Fork Sand, through perforations from 4,270 feet to 4,326 feet, on March 24 and placed on production as of May 26, 1981. Initial flow rates indicated approximately 35 to 45 barrels of oil per day and a small amount of gas.

The second exploratory test on this lease, the State School Land #2 well, drilled to a total depth of 4,699 feet and was completed in the Red Fork Sand, through perforations from 4,296 feet to 4,230 feet, on May 25. Initial testing of this well yielded 33 to 47 barrels of oil per day. This well, shut-in from June 17 through July 8 awaiting electrification of the pumping unit, is now on production.

On May 27, 1981, the State School Land #3 well was drilled to a total depth of 4,600 feet to evaluate the Mississippian Chert and Red Fork Sand formations. Production casing, set to total

*Pumping unit on Hennig #3A.*







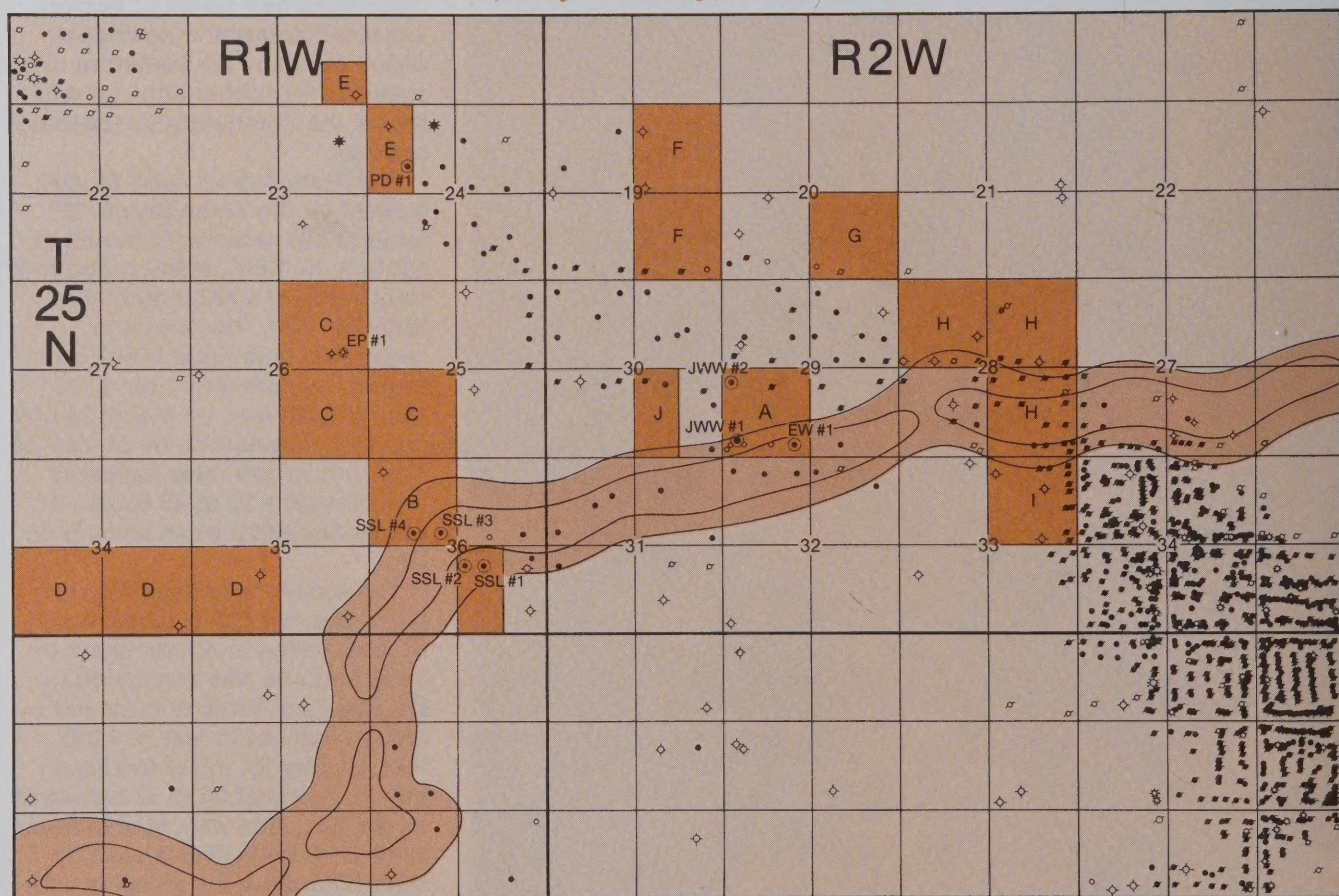
## REVIEW OF OPERATIONS

depth and perforation of the Mississippi Chert section combined with a light acid frac, confirmed probable production from the Mississippi Chert zone. This well, which was subsequently plugged back to 4,370 feet and perforated the Red Fork Sand from 4,392 feet to 4,415 feet, is currently flowing from the Red Fork Sand zone into a common tank battery together with the Company's State School Land #1 well. In mid-July 1981, the

combined rate of production from these two wells was approximately 60 barrels of oil per day. The Mississippi Chert section has been classified as proved behind pipe reserves.

The most recent well on the Three Sands "B" Prospect, the State School Land #4, drilled to a total depth of 4,575 feet on June 2, 1981 and encountered both the Mississippi Chert and Red Fork Sand formations. Initial testing of

## THREE SANDS PROSPECT, Kay County, Oklahoma



- Glencair Resources Inc. Acreage:
- Prospect Designation
- Red Fork Channel

- Abandoned well
- Oil well
- Gas well
- Location
- Glencair Oil Wells

- SSL #1 State School Land #1
- SSL #2 State School Land #2
- SSL #3 State School Land #3
- SSL #4 State School Land #4
- JWW #1 J.W. Wilson #1
- JWW #2 J.W. Wilson #2
- EW #1 Eleanor Wilson #1
- PD #1 Perrault Diemer #1
- EP #1 Eugene Putt #1



this well yielded a flow rate approximating 80 barrels of oil per day.

Jefferson-Williams Energy Corporation, operator and joint venture partner, intends to drill an additional well west or north of State School Land #4 in September to confirm this geology.

Eleanor Wilson #1 well, located on the Company's Three Sands "A" lease, drilled to 4,255 feet and was completed in the Red Fork Sand in February 1981. This well, together with the J.W. Wilson #2, an existing Saltwater Disposal well located on the same lease and completed in the Mississippi Chert section, yielded a combined production rate of approximately 15 barrels of oil and 80,000 cubic feet of gas per day in mid-July. It is the Company's intention to rework the Eleanor Wilson #1 well to increase the daily production rate.

The J.W. Wilson #1 well, included in the Company's acquisition, has been retained as a Saltwater Disposal well. The Perrault Diemer #1 well, an untreated Mississippian well located on the Company's Three Sands "E" lease, is presently producing at an average of four to six barrels of oil per day. The Company is currently investigating the merits of treating this well.

The Eugene Putt #1, a Wilcox wildcat, drilled on Three Sands "C" lease (a 436,667 acre tract) was off target and has been abandoned. Exploration of this target area has been suspended pending additional information to be obtained from current drilling in the area by other operators targeting the same geological zone in adjacent acreage.

Additional leases included in Glencair's acquisition, pending evaluation, include:

- Three Sands "D", a 440-acre tract located in the SE of Section 35 and S/2 of Section 34, T25N, R2W.
- Three Sands "F", "G" and "I"

which involve a Mississippian study currently under review.

- Three Sands "H", a 480-acre lease in Section 28, T25N, R1W, in which the Company holds a partial interest in the three quarters. This tract has both Mississippian and Red Fork potential. The Company is presently involved in a forced pool action in the SE/4 of Section 28.
- Three Sands "J", a lease on which the Company is presently negotiating a partition of its interest in the SE/4 of Section 30. At present, Jefferson-Williams, the operator, owns an undivided interest with another operator in this section.

### **Farmout Agreement**

Agreement has been finalized to farmout certain undeveloped acreage in the Three Sands Prospect. This farmout consists of three separate prospects totalling 640 acres within Three Sands. The farmout is on a checkerboard basis and accounts for 50% (320

acres) of these three prospects.

In addition to cash for its acreage and an overriding royalty, the Company receives the benefit of having another operator drill the exploratory wells on these prospects, thus proving up the balance of the acreage attributable to Glencair. All exploratory risks in the farmed out prospect are being assumed by others. Commencement of drilling the exploratory wells on three of the prospects is anticipated before the end of 1981.

*Martin L. O'Brien and Sydney J. Steiner reviewing Three Sands Prospect.*

PETER WILSON, TORONTO





## REVIEW OF OPERATIONS

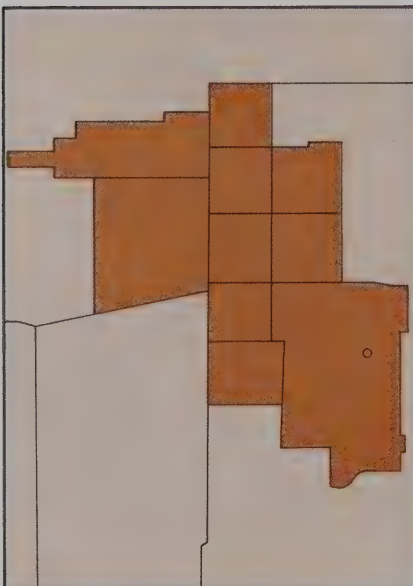
### WESSELY PROSPECTS, TEXAS AND OKLAHOMA

An agreement, reached with Wessely Energy Corporation, a wholly-owned subsidiary of Rockefeller Centre Inc. of New York, allows Glencair to participate in Wessely's 1981 exploration program thereby affording the Company an opportunity to participate with expert operators in deeper, more expensive plays offering higher rewards and greater reserves potential.

The Company's initial participation in the drilling program involves a 12.5% working interest in three prospect areas:

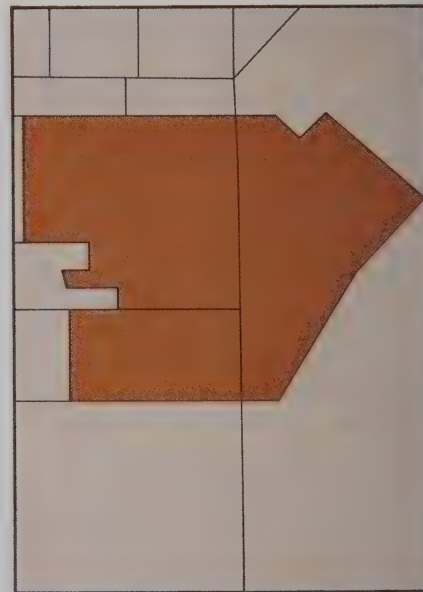
#### Atoy Creek Prospect, Texas

The Atoy Creek Prospect, Cherokee County, approximately 60 miles south southwest of Longview, Texas, consists of 3,054 gross acres (2,810 net) of oil and gas leases which contain a 13,173 foot abandoned Smackover well drilled by Delta Drilling Co. in 1977.



**ATOY CREEK PROSPECT, TEXAS**

■ Glencair Resources Acreage  
○ O.K. Winfree 111 No. 1 (re-entry)



**CANTON PROSPECT, TEXAS**

■ Glencair Resources Acreage

In mid-August 1981, this well was re-entered and completion pipe set at 11,200 feet. Glencair and its operator, Wessely Energy Corporation, are presently awaiting a work-over rig and expect to perforate this well to test several zones in the Travis Peak and Lower Petit or Lanier Lime formation in early September, 1981.

Existing log analyses of this well, which is located on the south flank of the Reklaw Field anticline where gas is trapped both structurally and stratigraphically, also indicate several potential zones between 9,140 feet and 8,340 feet. If successful, the Company intends to drill one or more follow-up wells on this prospect.

#### Canton Prospect, Texas

The Company's second area of interest in this Joint Venture agreement involves 4,166 gross acres (1,855 net) of oil and gas leases in Canton Prospect, Van Zandt County, Texas. Proposed plans include the drilling of one Smackover well, to a depth of 12,600 feet, to develop reserves not yet drilled in the



Canton Field. Volumetric calculations indicate that remaining reserves, after partial depletion by three abandoned wells and one producing well drilled by others, approximate 60%.

## Gulf McClain Prospect, Oklahoma

The Gulf McClain Prospect, which approximates 1,880 gross acres (427.42 net), is located in Sections 15, 16, 21 and 22 of Township 7N, Range 3W, in McClain County, west of and on the downthrown side of the McClain County Fault, the most pronounced fault in this region.

Initial plans call for the drilling of an 11,700 foot Oil Creek test to evaluate three deep Simpson sands: the Bromide at 10,700 feet; the Tulip Creek at 11,000 feet; and the Oil Creek at 11,500 feet.

These sands have produced an average of 700,000 barrels per well on 40-acre spacing, for those wells drilled in and around the south-west quarter of Section 11, one and a half miles to the northeast. Pays are expected to be in the order of 25 feet to 35 feet thick in the Bromide and Oil Creek and somewhat thinner in the Tulip Creek.

Drilling of this exploratory test, originally scheduled to commence in summer 1981, has been delayed pending results of concurrent drilling in the area by other operators on adjacent acreage.

*Rig workers preparing cement squeeze on Hennig #2A.*



GULF McCLAIN PROSPECT, OKLAHOMA

 Glencair Resources Acreage

JOHN R. REDDIN







## CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended  
March 31, 1981

### AUDITORS' REPORT

To the Shareholders of  
Glencair Resources Inc.

We have examined the consolidated balance sheet of Glencair Resources Inc. as at March 31, 1981 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
August 14, 1981

Thorne Riddell  
Chartered Accountants



## CONSOLIDATED BALANCE SHEET

As at March 31, 1981

### ASSETS

	1981	1980
<b>Current Assets</b>		
Cash and short term deposits	\$ 548,502	\$ 1,137
Accounts receivable	109,330	—
Accounts receivable from participants (note 2)	369,751	—
	<u>1,027,583</u>	<u>1,137</u>
<b>Marketable Securities</b> , at cost less allowance for decline in value	—	6,087
<b>Fixed Assets</b> , at cost less accumulated depreciation of \$3,963 (1980, \$900)	32,036	600
<b>Interest in and Expenditures on Oil and Gas Properties</b> (note 2)	<u>1,838,695</u>	<u>—</u>
	<u><b>\$2,898,314</b></u>	<u><b>\$ 7,824</b></u>

### LIABILITIES

<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 528,840	\$ 7,968
Promissory note payable (note 3)	632,260	—
	<u>1,161,100</u>	<u>7,968</u>

### SHAREHOLDERS' EQUITY

<b>Capital Stock</b> (note 4)		
Authorized		
500,000 Non-participating, voting preference shares at par value of \$.001 per share (after giving effect to redemption)		
7,500,000 Common shares without par value		
Issued		
Nil Preference shares (500,000 shares in 1980)	—	500
3,460,934 Common shares (2,037,000 shares in 1980)	<u>2,288,272</u>	<u>119,242</u>
	<u>2,288,272</u>	<u>119,742</u>
<b>Contributed Surplus</b> (note 5)	79,245	79,245
<b>Deficit</b>	<u>(630,303)</u>	<u>(199,131)</u>
	<u>1,737,214</u>	<u>(144)</u>
	<u><b>\$2,898,314</b></u>	<u><b>\$ 7,824</b></u>

Approved by the Board:



Sydney J. Steiner, Director



Martin L. O'Brien, Director





## CONSOLIDATED STATEMENT OF INCOME

Year Ended March 31, 1981

	1981	1980
<b>Revenue</b>		
Oil and gas sales (note 6)	\$ 40,926	\$ —
Interest income	30,197	311
Profit on disposal of marketable securities	25,921	10,078
	<u>97,044</u>	<u>10,389</u>
<b>Expenses</b>		
Direct costs	19,961	—
General and administrative	178,549	5,559
Interest	48,778	1,372
Depreciation	3,963	300
Foreign exchange	15,862	—
Deferred oil and gas expenditures written off	244,764	—
	<u>511,877</u>	<u>7,231</u>
<b>Net Income (Loss)</b>	<u>\$(414,833)</u>	<u>\$ 3,158</u>
<b>Income (Loss) Per Share</b>	<u>\$ (.151)</u>	<u>\$ .002</u>

## CONSOLIDATED STATEMENT OF DEFICIT

Year Ended March 31, 1981

	1981	1980
<b>Deficit at Beginning of Year</b>	<b>\$(199,131)</b>	<b>\$ (74,037)</b>
Net income (loss)	(414,833)	3,158
Financing expenses	(16,339)	—
Cost of mining properties and deferred mining exploratory expenditures written off on lapsing of all mining claims	—	(128,252)
<b>Deficit at End of Year</b>	<u><b>\$(630,303)</b></u>	<u><b>\$(199,131)</b></u>



# **CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

Year Ended March 31, 1981

	<u>1981</u>	<u>1980</u>
<b>Working Capital Derived from</b>		
Issue of common shares	\$2,169,030	\$ —
Proceeds from disposal of marketable securities	32,008	12,218
Proceeds from disposal of fixed assets	600	—
	<u>2,201,638</u>	<u>12,218</u>
<b>Working Capital Applied to</b>		
Operations	192,027	6,620
Expenditures on oil and gas properties	2,083,459	—
Expenditures on mining properties	—	260
Additions to fixed assets	35,999	—
Redemption of preference shares	500	—
Financing expenses	16,339	—
	<u>2,328,324</u>	<u>6,880</u>
<b>Decrease (Increase) in Working Capital Position</b>	126,686	(5,338)
<b>Working Capital Deficiency at Beginning of Year</b>	<u>6,831</u>	<u>12,169</u>
<b>Working Capital Deficiency at End of Year</b>		
(note 7)	<u>\$ 133,517</u>	<u>\$ 6,831</u>





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1981

### 1. Accounting Policies

#### (a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Glencair Resources (USA) Inc., a company incorporated in the State of Delaware.

The consolidated financial statements also include the Company's proportionate share of the individual assets, liabilities, revenues and expenses of joint ventures. Substantially all of the Company's activities are carried out through joint ventures.

#### (b) Interest in and Expenditures on Oil and Gas Properties

Costs are deferred in the accounts to be amortized when production commences or written off when the leases expire or when the Company relinquishes its interest in such leases.

#### (c) Foreign Exchange

The accounts in foreign currency are translated into Canadian dollars at the appropriate exchange rates as follows:

Current assets and liabilities at rates in effect at the period end.

Expenditures on oil and gas properties at the approximate rates in effect at the date the expenditures were made.

### 2. Interest in and Expenditures on Oil and Gas Properties

#### (a) Fort Worth Basin Prospect

During the year the Company purchased a group of oil and gas leases situated in the Fort Worth Basin in Texas. A 50% undivided working interest in these leases has been farmed out as follows:

Pennant Resources Limited	16 $\frac{2}{3}$ %
Macfie Resources Inc.	16 $\frac{2}{3}$ %
Kam-Kotia Mines Limited	16 $\frac{2}{3}$ %

Amounts recoverable from the participants for these projects amounted to \$369,751.

At March 31, 1981 expenditures on this project amounted to \$1,198,031 of which \$244,764 has been written off.

As operator at the Fort Worth Basin the Company is contingently responsible for the liabilities of the joint venture, however the Company has recourse to the participants to the extent the Company is required to pay liabilities in excess of its proportionate share.

#### (b) Three Sands Prospect

During the year the Company entered a joint venture with Jefferson-Williams Energy Corporation. The Company owns a 50% undivided working interest in oil and gas leases located in Kay County, Oklahoma.

At March 31, 1981 total expenditures on this project amounted to \$794,973.

#### (c) Wessely Prospects

During the year the Company acquired an interest in a joint venture with Wessely Energy Corporation. The Company owns a 12.5% undivided working interest in oil and gas leases in Texas and Oklahoma.

At March 31, 1981 the cost to Glencair of obtaining leases amounted to \$90,455.

Costs incurred and included on the balance sheet are the Company's share of costs to date on these projects.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1981

### 3. Promissory Note Payable

During the year the Company issued a promissory note for U.S. \$528,800. The note bears interest at an annual rate of 2% above the prime commercial lending rate as charged by the Republic National Bank of Dallas, Texas. The note is secured by a floating charge upon the undertaking and all the assets and property of the Company. The promissory note is issued to Assurance Investments Limited, a company related to Glencair as there is a degree of common ownership and management.

In May 1981, the promissory note was paid.

### 4. Capital Stock

- (a) By Articles of Amendment dated September 16, 1980, the authorized capital of the Company was increased by an additional 4,500,000 common shares without par value.
- (b) A rights offering was made to all common shareholders whereby each common shareholder of record on June 25, 1980 was offered the right to purchase one common share for every three held at 50 cents per share. During the year 493,934 rights were exercised and common shares were issued for proceeds of \$246,967. Unexercised rights expired on July 25, 1980.
- (c) At the last general meeting of shareholders on July 3, 1980, approval was obtained from the shareholders of the Company to grant non-assignable options to purchase 110,000 common shares of the Company at 75 cents per share by certain officers and directors of the Company. Options on all shares were granted. During the year 35,000 common shares upon exercise of options were issued for \$26,250. These options expire on June 1, 1983.
- (d) By agreement dated September 22, 1980, the Company negotiated a private placement of common shares. Under the terms of the agreement the Company sold six units each consisting of 90,000 common shares of the Company and share purchase warrants to purchase 45,000 further common shares in the capital of the Company at a total purchase price per unit of \$103,500. The exercise price of the share purchase warrants is \$1.35 per share within the first year from the date of issue and \$1.75 per share the second year from the date of issue. In October 1980 the six units were issued for proceeds of \$621,000. In February 1981, 32,500 purchase warrants were exercised and common shares issued for \$43,875.
- (e) By agreement dated December 18, 1980, the Company negotiated a second private placement of common shares. Under the terms of the agreement the Company has sold twelve units each consisting of 20,000 common shares of the Company and share purchase warrants to purchase 10,000 further common shares in the capital of the Company at a total purchase price per unit of \$100,000. The exercise price of the share purchase warrants is \$7.50 exercisable by December 18, 1981. Proceeds to the Company from this placement amounted to \$1,200,000.
- (f) Pursuant to the arrangements under which the Company issued the promissory note referred to in note 3, the Company issued share purchase warrants for 65,000 common shares of the capital stock of the Company. The exercise price of the share purchase warrants is \$5.00 per share exercisable to December 31, 1981 and at \$7.50 per share to December 31, 1982.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1981

- (g) During the year, the preference shares were redeemed for \$500 and the holders of these preference shares were issued warrants which were exercised to purchase 82,500 common shares at 37½ cents per share for total proceeds of \$30,938.
- (h) At a directors' meeting on February 5, 1981 approval was granted to issue 26,000 common shares to Mr. David Florence for services rendered. The bid price on February 5, 1981 was \$5.25 per share. These shares were issued in April, 1981.

### 5. Contributed Surplus

During the year ended March 31, 1978 the shareholders of Glencair donated to the company 884,764 shares of their own stock as part of a financing plan undertaken by the Company. Of the total shares surrendered 330,000 were reissued during the year ended March 31, 1978 for a cash consideration of \$79,245. These proceeds have been credited to contributed surplus. As at March 31, 1981, the balance of these shares are being held in escrow for the benefit of the Company.

### 6. Other

This Company was formerly in the business of exploration and development of mining properties. In 1980, all costs related to mining of properties and deferred mining exploration expenditures were written off. In 1981 the Company's principal activity is the development of oil and gas properties and oil and gas revenues commenced just prior to the fiscal year end. Consequently, after shareholder approval, by Articles of Amendment the Company changed its name to Glencair Resources Inc. from Glencair Mining Company Limited.

### 7. Subsequent Events

- (a) The Board of Directors has approved a private placement to a maximum of \$3,000,000 of convertible debentures accompanied by share purchase warrants and common shares. The Company has received \$1,300,000 for the purchase of 13 units. Terms of these debentures are as follows:
  - (i) The issue is limited to 30 units each consisting of a principal amount of \$100,000 of convertible Series A debentures to be issued under a trust indenture;
  - (ii) Interest at 10% is payable semi-annually commencing October 15, 1981;
  - (iii) Conversion into common shares is on the basis of 143 shares per each \$1,000 debenture (convertible in multiples of \$1,000) until April 15, 1984, 125 until April 15, 1985 and 111 shares to maturity on April 15, 1986;
  - (iv) Security for the debentures is a floating charge on the Company's assets;
  - (v) The debentures are non-callable during the first two years and thereafter callable in multiples of \$1,000 after 30 days notice with a premium of 5% in the third year, 2½ % in the fourth year and no premium thereafter;
  - (vi) Attached to each of the 30 units is a warrant to purchase 10,000 common shares for \$6.50 per share until October 15, 1982;
  - (vii) Each \$1,000 debenture is accompanied by 50 common shares of the Company.
- (b) See also notes 3 and 4(h).



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1981

## 8. Segmented Information

Active operations are in the United States subsidiary. Corporate office is within the Canadian company.

	<u>Canada</u>	<u>United States</u>	<u>Consolidated</u>
Revenues			
Oil and gas		\$ 40,926	\$ 40,926
Segment operating profit (loss)	\$201,890	\$ (369,571)	\$ 167,681
General corporate expense			198,374
Interest expense			48,778
Loss for the year			\$ 414,833
Identifiable assets	\$499,354	\$ 2,398,960	\$2,898,314





## CORPORATE DATA

### DIRECTORS

Samuel Louis Helfenbaum  
*Toronto, Ontario (Canada)*  
President, SLH Associates Inc.

Frank Eugene McLain  
*Dallas, Texas (U.S.A.)*  
Partner, Turner, Rodgers, Sailors,  
Jordan and Calloway

Martin Leo O'Brien  
*Toronto, Ontario (Canada)*  
Lawyer, Counsel to Shibley,  
Righton & McCutcheon

Sydney Jack Steiner  
*Toronto, Ontario (Canada)*  
President and Chief Operating  
Officer, Assurance Investments  
Limited; Vestige Enterprises Ltd;  
Yonge Drewry Holdings Inc.;  
Lawyer

H. Vance White  
*Toronto, Ontario (Canada)*  
President, Dickenson Mines  
Limited  
President, Kam-Kotia Mines Limited

### OFFICERS

Sydney Jack Steiner  
President

John William Clutterbuck  
Secretary-Treasurer

### AUDIT COMMITTEE

Martin Leo O'Brien  
Sydney Jack Steiner  
H. Vance White

### SUBSIDIARY

Glencair Resources (USA) Inc.  
(a wholly-owned subsidiary)

### HEAD OFFICE

Suite 438  
100 Richmond Street West  
Sheraton Centre  
Toronto, Ontario  
M5H 3K6  
(416) 366-8871

### BANKERS

Canadian Imperial Bank of  
Commerce  
Toronto, Ontario (Canada)

Republic National Bank of Dallas  
Dallas, Texas (U.S.A.)

Bank of Commerce  
Abilene, Texas (U.S.A.)

### REGISTRAR & TRANSFER AGENT

The Canada Trust Company  
Toronto, Ontario (Canada)

### LEGAL COUNSEL

Shibley, Righton & McCutcheon  
Toronto, Ontario (Canada)

Turner, Rodgers, Sailors, Jordan  
and Calloway  
Dallas, Texas (U.S.A.)

### AUDITORS

Thorne Riddell  
Toronto, Ontario (Canada)

Main, Hurdman  
Odessa, Texas (U.S.A.)

### TRADING INFORMATION

The Company's shares trade over-  
the-counter in Toronto.

### ANNUAL MEETING

The Annual Meeting of Share-  
holders will be held at 4:30  
p.m., on Wednesday, Septem-  
ber 30, 1981 in the Belgravia  
Room, The King Edward Hotel,  
Toronto.









**GLENCAIR RESOURCES INC.**

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